

MADRID COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2006

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Madrid Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Terry Ostendorf	President	2007
Molly Griswold	Vice President	2006
Lou Galetich	Board Member	2005
Darci Munford	Board Member	2007
Carolee DeSotel	Board Member	2005

Board of Education (After September 2005 Election)		
Terry Ostendorf	President	2007
Molly Griswold	Vice President	2006
Lou Galetich	Board Member	2008
Darci Munford	Board Member	2007
Carolee DeSotel	Board Member (Resigned)	2008
Emily Schieltz	Board Member (Appointed)	2006

School Officials		
Dennis Pelisek	Superintendent	2006
Sandy Johnson	Business Manager	2006
Jordan Mahoney		
Jordan & Quinn, P.C.	Attorney	2006

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Madrid Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Madrid Community School District, Madrid, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Madrid Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 7, 2006 on our consideration of Madrid Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 through 33 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Madrid Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

August 7, 2006

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Madrid Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2006 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$4,098,606 in fiscal 2005 to \$4,404,299 in fiscal 2006, while General Fund expenditures increased from \$4,291,646 in fiscal 2005 to \$4,375,672 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from \$67,395 in fiscal 2005 to a balance of \$23,342 in fiscal 2006, a 65.4% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in unrestricted state grants in fiscal 2006. The increase in expenditures was due primarily to increases in negotiated salary and benefits for District employees.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Madrid Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Madrid Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Madrid Community School District acts solely as an agent or custodial for the benefit of those outside of School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**

***Madrid Community School District Annual Financial Report***

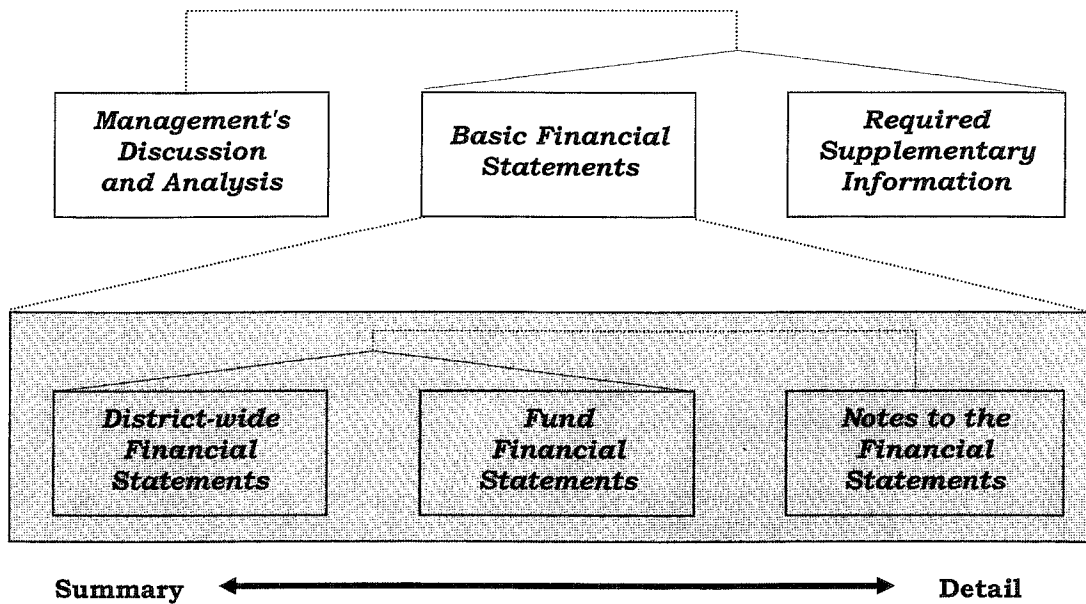


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b> <b>Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid



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## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 3,379,422	2,900,662	23,828	21,438	3,403,250	2,922,100	16.47%
Capital assets	3,669,046	3,710,303	22,697	23,482	3,691,743	3,733,785	-1.13%
Total assets	7,048,468	6,610,965	46,525	44,920	7,094,993	6,655,885	6.60%
Long-term obligations	1,715,498	1,661,592	0	0	1,715,498	1,661,592	3.24%
Other liabilities	2,855,707	2,275,258	3,086	3,101	2,858,793	2,278,359	25.48%
Total liabilities	4,571,205	3,936,850	3,086	3,101	4,574,291	3,939,951	16.10%
Net assets:							
Invested in capital assets, net of related debt	2,403,080	2,345,846	22,697	23,482	2,425,777	2,369,328	2.38%
Restricted	82,906	135,128	0	0	82,906	135,128	-38.65%
Unrestricted	(8,723)	193,141	20,742	18,337	12,019	211,478	-94.32%
Total net assets	\$ 2,477,263	2,674,115	43,439	41,819	2,520,702	2,715,934	-7.19%

The District's combined net assets decreased by 7.19%, or \$195,232, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$52,222, or 38.65% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$199,459, or 94.32%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 345,393	350,347	169,205	160,513	514,598	510,860	0.73%
Operating grants and contributions and restricted interest	525,602	476,483	65,717	59,562	591,319	536,045	10.31%
General revenues:							
Property tax	1,398,257	1,363,142	0	0	1,398,257	1,363,142	2.58%
Local option sales and services tax	300,009	329,260	0	0	300,009	329,260	-8.88%
Unrestricted state grants	2,357,628	2,226,758	0	0	2,357,628	2,226,758	5.88%
Other	63,959	32,584	83	73	64,042	32,657	96.10%
Total revenues	4,990,848	4,778,574	235,005	220,148	5,225,853	4,998,722	4.54%
Program expenses:							
Governmental activities:							
Instructional	3,150,913	3,012,251	0	0	3,150,913	3,012,251	4.60%
Support services	1,513,138	1,309,655	0	0	1,513,138	1,309,655	15.54%
Non-instructional programs	4,177	68,190	309,195	222,508	313,372	290,698	7.80%
Other expenses	446,792	375,960	0	0	446,792	375,960	18.84%
Total expenses	5,115,020	4,766,056	309,195	222,508	5,424,215	4,988,564	8.73%
Excess(deficiency) of revenues over(under) expenditures	(124,172)	12,518	(74,190)	(2,360)	(198,362)	10,158	-2052.77%
Other financing sources(uses)							
Capital contributions	0	0	3,130	0	3,130	0	100.00%
Transfer in	0	0	72,680	0	72,680	0	100.00%
Transfer out	(72,680)	0	0	0	(72,680)	0	-100.00%
Total other financing sources(uses)	(72,680)	0	75,810	0	3,130	0	100.00%
Changes in net assets	(196,852)	12,518	1,620	(2,360)	(195,232)	10,158	-2021.95%
Beginning net assets	2,674,115	2,661,597	41,819	44,179	2,715,934	2,705,776	0.38%
Ending net assets	\$ 2,477,263	2,674,115	43,439	41,819	2,520,702	2,715,934	-7.19%

In fiscal 2006, property tax and unrestricted state grants account for 75.3% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.9% of the revenue from business type activities.

The District's total revenues were approximately \$5.23 million of which \$4.99 million was for governmental activities and less than \$0.24 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 4.54% increase in revenues and an 8.73% increase in expenses. Unrestricted state grants increased \$130,870 to fund increases in expenditures. The increase in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

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## Governmental Activities

Revenues for governmental activities were \$4,990,848 and expenses were \$5,115,020. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,150,913	2,445,737
Support services	1,513,138	1,510,510
Non-instructional programs	4,177	4,177
Other expenses	446,792	283,601
Totals	<u>\$ 5,115,020</u>	<u>4,244,025</u>

- The cost financed by users of the District's programs was \$345,393.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$525,602.
- The net cost of governmental activities was financed with \$1,398,257 in property tax, \$300,009 in local option sales and services tax, \$2,357,628 in unrestricted state grants and \$46,767 in interest income.

## Business-Type Activities

Revenues of the District's business-type activities were \$235,005 and expenses were \$309,195. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

As previously noted, the Madrid Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$394,796, below last year's ending fund balances of a \$497,125. However, the primary reason for the decrease in combined fund balances in fiscal 2006 is due to increases in negotiated salary and benefits.

## Governmental Fund Highlights

- The District's declining General Fund financial position from is the product of many factors:
  - Increase in state aid grants during the year resulted in an increase in revenues.
  - The increase in revenues was more than offset by the increase in expenditures, causing the General Fund balance to decrease.

- The Capital Projects Fund balance increased from \$254,128 in fiscal 2005 to \$265,998 in fiscal 2006.

### Proprietary Fund Highlights

The Proprietary Fund net assets increased from \$41,819 at June 30, 2005 to \$43,439 at June 30, 2006, representing a increase of 3.9%.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$1,007,516 less than budgeted revenues, a variance of 16.16%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2006, the District had invested \$3,691,743, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 1.1% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$143,096.

The original cost of the District's capital assets was \$7,658,590. Governmental funds account for \$7,548,439 with the remainder of \$110,151 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the land improvements category. The District's land improvements totaled \$66,962 at June 30, 2005, compared to \$54,562 reported at June 30, 2006.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 112,126	112,126	0	0	112,126	112,126	0.00%
Buildings	3,428,374	3,441,952	0	0	3,428,374	3,441,952	-0.40%
Land improvements	54,562	66,962	0	0	54,562	66,962	-22.73%
Machinery and equipment	73,984	89,263	22,697	23,482	96,681	112,745	-16.62%
Total	\$ 3,669,046	3,710,303	22,697	23,482	3,691,743	3,733,785	-1.14%

### Long-Term Debt

At June 30, 2006, the District had \$1,715,498 in long-term debt outstanding. This represents an increase of 3.2% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

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The District had outstanding general obligation bonds payable of \$1,535,000 at June 30, 2006.

The District had outstanding early retirement payable of \$172,473 at June 30, 2006.

The District had outstanding compensated absences at June 30, 2006 of \$8,025.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	2006	2005	
General obligation bonds	\$ 1,535,000	1,620,000	-5.2%
Compensated absences	8,025	6,795	18.1%
Early Retirement	172,473	34,797	395.7%
Totals	<u>\$ 1,715,498</u>	<u>1,661,592</u>	<u>3.2%</u>

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District experienced a 14.9 student increase in enrollment. This is a positive sign to the District. If this trend can continue, this would greatly benefit the District.
- The District has actively pursued grants from various sources in order to enhance the District's course offerings.
- The District is collecting local option sales tax in Boone, Dallas & Polk counties within the District's boundaries. One-half of Boone County sales taxes are used to reduce the tax asking in the Debt Service Fund.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sandra R. Johnson, Business Manager, Madrid Community School District, 201 North Main St., Madrid, Iowa, 50156.

## BASIC FINANCIAL STATEMENTS

MADRID COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments:			
ISCAP (Note 4)	\$ 1,304,723	0	1,304,723
Other	295,299	10,256	305,555
Receivables:			
Property tax:			
Delinquent	20,043	0	20,043
Succeeding year	1,495,766	0	1,495,766
Income surtax	140,920	0	140,920
Accounts	19,389	0	19,389
Accrued interest - ISCAP (Note 4)	9,917	0	9,917
Due from other governments	93,365	0	93,365
Inventories	0	13,572	13,572
Capital assets, net of accumulated depreciation (Note 5)	3,669,046	22,697	3,691,743
<b>TOTAL ASSETS</b>	<b>7,048,468</b>	<b>46,525</b>	<b>7,094,993</b>
<b>LIABILITIES</b>			
Accounts payable	25,377	0	25,377
ISCAP warrants payable (Note 4)	1,304,000	0	1,304,000
ISCAP accrued interest payable (Note 4)	9,288	0	9,288
ISCAP unamortized premium	9,275	0	9,275
Accrued interest payable	12,001	0	12,001
Deferred revenue:			
Succeeding year property tax	1,495,766	0	1,495,766
Other	0	3,086	3,086
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds payable	90,000	0	90,000
Compensated absences	8,025	0	8,025
Early retirement payable	83,416	0	83,416
Portion due after one year:			
General obligation bonds payable	1,445,000	0	1,445,000
Early retirement payable	89,057	0	89,057
<b>TOTAL LIABILITIES</b>	<b>4,571,205</b>	<b>3,086</b>	<b>4,574,291</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	2,403,080	22,697	2,425,777
Restricted for:			
Salary improvement program	417	0	417
Physical plant and equipment levy	42,003	0	42,003
Other special revenue purposes	40,486	0	40,486
Unrestricted	(8,723)	20,742	12,019
<b>TOTAL NET ASSETS</b>	<b>\$ 2,477,263</b>	<b>43,439</b>	<b>2,520,702</b>

SEE NOTES TO FINANCIAL STATEMENTS.



MADRID COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
Functions/Programs					Total
Governmental activities:					
Instruction:					
Regular instruction	\$ 2,116,677	345,393	331,810	(1,439,474)	0
Special instruction	506,964	0	27,973	(478,991)	0
Other instruction	527,272	0	0	(527,272)	0
	<u>3,150,913</u>	<u>345,393</u>	<u>359,783</u>	<u>(2,445,737)</u>	<u>0</u>
Support services:					
Student services	117,223	0	0	(117,223)	0
Instructional staff services	202,236	0	0	(202,236)	0
Administration services	561,688	0	0	(561,688)	0
Operation and maintenance of plant services	443,741	0	0	(443,741)	0
Transportation services	188,250	0	2,628	(185,622)	0
	<u>1,513,138</u>	<u>0</u>	<u>2,628</u>	<u>(1,510,510)</u>	<u>0</u>
Non-instructional programs:					
Food service operations	4,177	0	0	(4,177)	0
Other expenditures:					
Facilities and acquisitions	89,346	0	0	(89,346)	0
Long-term debt interest	75,593	0	0	(75,593)	0
AEA flowthrough	163,191	0	163,191	0	0
Depreciation(unallocated)*	118,662	0	0	(118,662)	0
	<u>446,792</u>	<u>0</u>	<u>163,191</u>	<u>(283,601)</u>	<u>0</u>
Total governmental activities	<u>5,115,020</u>	<u>345,393</u>	<u>525,602</u>	<u>(4,244,025)</u>	<u>0</u>
Business-Type activities:					
Non-instructional programs:					
Nutrition services	309,195	169,205	65,717	0	(74,273)
Total business-type activities	<u>309,195</u>	<u>169,205</u>	<u>65,717</u>	<u>0</u>	<u>(74,273)</u>
Total	<u>\$ 5,424,215</u>	<u>514,598</u>	<u>591,319</u>	<u>(4,244,025)</u>	<u>(74,273)</u>
General Revenues:					
Local tax for:					
General purposes				\$ 1,321,890	0
Debt Service				52,112	0
Capital outlay				24,255	0
Local option sales and services tax				300,009	0
Unrestricted state grants				2,357,628	0
Unrestricted investment earnings				46,767	83
Other				17,192	0
Total general revenues				<u>4,119,853</u>	<u>83</u>
Changes in net assets before other financing sources(uses)				<u>(124,172)</u>	<u>(74,190)</u>
Other financing sources (uses)					
Capital contributions				0	3,130
Transfer in				0	72,680
Transfer out				(72,680)	0
Total other financing sources (uses)				<u>(72,680)</u>	<u>75,810</u>
Changes in net assets				<u>(196,852)</u>	<u>1,620</u>
Net assets beginning of year				<u>2,674,115</u>	<u>41,819</u>
Net assets end of year				<u>\$ 2,477,263</u>	<u>43,439</u>

\* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

MADRID COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>				
Cash and pooled investments:				
ISCAP (Note 4)	\$ 1,304,723	0	0	1,304,723
Other	0	201,556	103,195	304,751
Receivables:				
Property tax:				
Delinquent	17,827	0	2,216	20,043
Succeeding year	1,254,917	0	240,849	1,495,766
Income surtax	140,920	0	0	140,920
Accounts	19,389	0	0	19,389
Accrued interest - ISCAP (Note 4)	9,917	0	0	9,917
Due from other governments	28,878	64,442	45	93,365
<b>TOTAL ASSETS</b>	<b>\$ 2,776,571</b>	<b>265,998</b>	<b>346,305</b>	<b>3,388,874</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Excess of warrants issued over bank balance	\$ 9,452	0	0	9,452
Accounts payable	25,377	0	0	25,377
ISCAP warrants payable (Note 4)	1,304,000	0	0	1,304,000
ISCAP accrued interest payable (Note 4)	9,288	0	0	9,288
ISCAP unamortized premium	9,275	0	0	9,275
Deferred revenue:				
Succeeding year property tax	1,254,917	0	240,849	1,495,766
Income surtax	140,920	0	0	140,920
Total liabilities	2,753,229	0	240,849	2,994,078
Fund balances:				
Reserved for:				
Salary improvement program	417	0	0	417
Debt service	0	0	15,037	15,037
Unreserved:				
General	22,925	0	0	22,925
Management	0	0	7,930	7,930
Capital Projects	0	265,998	0	265,998
Physical plant and equipment levy	0	0	42,003	42,003
Other special revenue purposes	0	0	40,486	40,486
Total fund balances	23,342	265,998	105,456	394,796
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,776,571</b>	<b>265,998</b>	<b>346,305</b>	<b>3,388,874</b>

SEE NOTES TO FINANCIAL STATEMENTS.

MADRID COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2006

Total fund balances of governmental funds (page 15)	\$ 394,796
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	3,669,046
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	140,920
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(12,001)
Long-term liabilities, including general obligation bonds, early retirement and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(1,715,498)
Net assets of governmental activities (page 13)	<u>\$ 2,477,263</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MADRID COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 1,261,568	300,009	136,689	1,698,266
Tuition	177,624	0	0	177,624
Other	83,142	3,891	144,695	231,728
State sources	2,700,293	0	170	2,700,463
Federal sources	181,672	0	1,095	182,767
Total revenues	4,404,299	303,900	282,649	4,990,848
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular instruction	1,988,856	0	55,578	2,044,434
Special instruction	506,964	0	0	506,964
Other instruction	390,309	0	136,963	527,272
	2,886,129	0	192,541	3,078,670
Support services:				
Student services	117,223	0	0	117,223
Instructional staff services	202,236	0	0	202,236
Administration services	494,642	0	0	494,642
Operation and maintenance of plant services	395,725	0	44,997	440,722
Transportation services	116,526	0	59,847	176,373
	1,326,352	0	104,844	1,431,196
Non-instructional programs:				
Food service operations	0	0	4,177	4,177
Other expenditures:				
Facilities acquisitions	0	182,030	0	182,030
Long-term debt:				
Principal	0	0	85,000	85,000
Interest and fiscal charges	0	0	76,233	76,233
AEA flowthrough	163,191	0	0	163,191
	163,191	182,030	161,233	506,454
Total expenditures	4,375,672	182,030	462,795	5,020,497
Excess(deficiency) of revenues over(under) expenditures	28,627	121,870	(180,146)	(29,649)
Other financing sources(uses):				
Operating transfers in	0	0	110,000	110,000
Operating transfers out	(72,680)	(110,000)	0	(182,680)
Total other financing sources(uses)	(72,680)	(110,000)	110,000	(72,680)
Net change in fund balances	(44,053)	11,870	(70,146)	(102,329)
Fund balance beginning of year	67,395	254,128	175,602	497,125
Fund balance end of year	\$ 23,342	265,998	105,456	394,796

SEE NOTES TO FINANCIAL STATEMENTS.

MADRID COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ (102,329)

**Amounts reported for governmental activities in the  
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 106,558	
Depreciation expense	(139,181)	
Loss on disposal of capital assets	<u>(8,634)</u>	(41,257)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 0

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 85,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 640

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	\$ (137,676)	
Compensated absences	<u>(1,230)</u>	<u>(138,906)</u>

Changes in net assets of governmental activities (page 14) \$ (196,852)

SEE NOTES TO FINANCIAL STATEMENTS.

MADRID COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2006

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 10,256
Inventories	13,572
Capital assets, net of accumulated depreciation (Note 5)	<u>22,697</u>
TOTAL ASSETS	<u>46,525</u>
LIABILITIES	
Deferred revenue:	
Other	<u>3,086</u>
TOTAL LIABILITIES	<u>3,086</u>
NET ASSETS	
Investment in capital assets, net of related debt	22,697
Unrestricted	<u>20,742</u>
TOTAL NET ASSETS	<u>\$ 43,439</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MADRID COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	<u>\$ 169,205</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Salaries	118,541
Benefits	45,271
Services	1,946
Supplies	139,522
Depreciation	3,915
TOTAL OPERATING EXPENSES	<u>309,195</u>
OPERATING LOSS	<u>(139,990)</u>
NON-OPERATING REVENUES:	
State sources	3,409
Federal sources	62,308
Interest on investments	83
TOTAL NON-OPERATING REVENUES	<u>65,800</u>
Net loss before other financing sources	<u>(74,190)</u>
OTHER FINANCING SOURCES	
Capital contribution	3,130
Transfer from General Fund	72,680
TOTAL OTHER FINANCING SOURCES	<u>75,810</u>
Net income	1,620
Net assets beginning of year	<u>41,819</u>
Net assets end of year	<u><u>\$ 43,439</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

MADRID COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 163,336
Cash received from miscellaneous	5,854
Cash payments to employees for services	(163,812)
Cash payments to suppliers for goods or services	(132,341)
Net cash used in operating activities	<u>(126,963)</u>
Cash flows from non-capital financing activities:	
State grants received	3,409
Federal grants received	52,714
Net cash provided by non-capital financing activities	<u>56,123</u>
Cash flows from investing and other activities:	
Transfer from General Fund	72,680
Interest on investments	83
Net cash provided by investing and other activities	<u>72,763</u>
Net increase in cash and cash equivalents	1,923
Cash and cash equivalents at beginning of year	<u>8,333</u>
Cash and cash equivalents at end of year	<u>\$ 10,256</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (139,990)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	9,594
Depreciation	3,915
Increase in inventories	(467)
Decrease in deferred revenue	(15)
Net cash used in operating activities	<u>\$ (126,963)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 10,256</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$9,594.

During the year ended June 30, 2006, the School Nutrition Fund received capital contributions from the Capital Projects Fund in the amount of \$3,130.

SEE NOTES TO FINANCIAL STATEMENTS.



MADRID COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

(1) **Summary of Significant Accounting Policies**

The Madrid Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Madrid, Iowa, and the predominate agricultural territory in Boone, Dallas and Polk Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Madrid Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Madrid Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Boone, Dallas and Polk Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds are the School Nutrition Fund. The Nutrition fund is used to account for the food service operations of the District.

#### C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is

incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,200
Buildings	1,200
Land improvements	1,200
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,200

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

**(2) Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments as of June 30, 2006.

**(3) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 110,000
Nutrition	General	72,680
Total		<u>\$ 182,680</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

**(4) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating

entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06A	6/30/2005	6/30/2006	217	0	0	0
2005-06B	1/26/2006	1/26/2007	\$ 476,658	9,659	475,000	9,077
2006-07A	6/28/2006	6/28/2007	827,848	258	829,000	211
Total			\$ 1,304,723	9,917	1,304,000	9,288

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2005-06A	\$ 0	200,000	200,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06A	4.000 %	3.903 %
2005-06B	4.500	4.772
2006-07A	4.500	5.676

(5) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 112,126	0	0	112,126
Total capital assets not being depreciated	112,126	0	0	112,126
Capital assets being depreciated:				
Buildings	6,208,757	92,684	0	6,301,441
Land improvements	501,000	0	0	501,000
Machinery and equipment	651,306	13,874	31,308	633,872
Total capital assets being depreciated	7,361,063	106,558	31,308	7,436,313
Less accumulated depreciation for:				
Buildings	2,766,805	106,262	0	2,873,067
Land improvements	434,038	12,400	0	446,438
Machinery and equipment	562,043	20,519	22,674	559,888
Total accumulated depreciation	3,762,886	139,181	22,674	3,879,393
Total capital assets being depreciated, net	3,598,177	(32,623)	8,634	3,556,920
Governmental activities capital assets, net	\$ 3,710,303	(32,623)	8,634	3,669,046
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 109,221	3,130	2,200	110,151
Less accumulated depreciation	85,739	3,915	2,200	87,454
Business-type activities capital assets, net	\$ 23,482	(785)	0	22,697

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 3,521
Support services:	
Administration	3,332
Operation and maintenance of plant	2,348
Transportation	11,318
	<u>20,519</u>
Unallocated depreciation	<u>118,662</u>
Total governmental activities depreciation expense	<u>\$ 139,181</u>
Business-type activities:	
Food services	<u>\$ 3,915</u>



(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 1,620,000	0	85,000	1,535,000	90,000
Compensated absences	6,795	8,025	6,795	8,025	8,025
Early Retirement	34,797	167,027	29,351	172,473	83,416
Total	\$ 1,661,592	175,052	121,146	1,715,498	181,441

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May 1, 1999			Bond Issue of May 1, 1999			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2007	4.60 %	\$ 90,000	25,427	5.30 %		46,580	\$ 90,000	72,007	162,007
2008	4.60	95,000	21,288	5.30		46,580	95,000	67,868	162,868
2009	4.60	95,000	16,917	4.35		46,580	95,000	63,497	158,497
2010	4.55	100,000	12,548	4.45		46,580	100,000	59,128	159,128
2011	4.55	105,000	7,997	4.50		46,580	105,000	54,577	159,577
2012	4.60	70,000	3,220	4.60	40,000	46,580	110,000	49,800	159,800
2013				4.60	115,000	44,740	115,000	44,740	159,740
2014				4.65	120,000	39,450	120,000	39,450	159,450
2015				4.70	130,000	33,870	130,000	33,870	163,870
2016				4.75	135,000	27,760	135,000	27,760	162,760
2017				4.80	140,000	21,348	140,000	21,348	161,348
2018				4.85	145,000	14,628	145,000	14,628	159,628
2019				4.90	155,000	7,595	155,000	7,595	162,595
Total		\$ 555,000	87,397		\$ 980,000	468,871	\$ 1,535,000	556,268	2,091,268

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must be at least fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to 35% of the employee's regular contractual salary from the salary schedule in effect during the employee's last year of employment. Early retirement benefits paid during the year totaled \$29,351.

**(7) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$161,884, \$153,880, and \$149,584 respectively, equal to the required contributions for each year.

**(8) Risk Management**

Madrid Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$163,191 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.



REQUIRED SUPPLEMENTARY INFORMATION

MADRID COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2006

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Fund Types	Fund Type		Original	Final	Actual
	Actual	Actual	Actual			Variance -
						Positive
						(Negative)
Revenues:						
Local sources	\$ 2,107,618	169,288	2,276,906	3,289,262	3,289,262	(1,012,356)
State sources	2,700,463	3,409	2,703,872	2,673,300	2,673,300	30,572
Federal sources	182,767	62,308	245,075	270,807	270,807	(25,732)
Total revenues	4,990,848	235,005	5,225,853	6,233,369	6,233,369	(1,007,516)
Expenditures:						
Instruction	3,078,670	0	3,078,670	3,355,000	3,355,000	276,330
Support services	1,431,196	0	1,431,196	1,875,000	1,875,000	443,804
Non-instructional programs	4,177	309,195	313,372	455,000	455,000	141,628
Other expenditures	506,454	0	506,454	603,238	603,238	96,784
Total expenditures	5,020,497	309,195	5,329,692	6,288,238	6,288,238	958,546
Excess(deficiency) of revenues over(under) expenditures	(29,649)	(74,190)	(103,839)	(54,869)	(54,869)	48,970
Other financing sources, net	(72,680)	75,810	3,130	0	0	(3,130)
Excess(deficiency) of revenues over(under) expenditures	(102,329)	1,620	(100,709)	(54,869)	(54,869)	45,840
Balance beginning of year	497,125	41,819	538,944	390,539	390,539	148,405
Balance end of year	\$ 394,796	43,439	438,235	335,670	335,670	102,565

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MADRID COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTARY INFORMATION

MADRID COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2006

	Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ 6,932	40,486	41,602	89,020	14,175	103,195
Receivables:						
Property tax:						
Current year delinquent	978	0	393	1,371	845	2,216
Succeeding year	165,000	0	27,841	192,841	48,008	240,849
Due from other governments	20	0	8	28	17	45
TOTAL ASSETS	\$ 172,930	40,486	69,844	283,260	63,045	346,305
LIABILITIES AND FUND BALANCES						
Liabilities						
Deferred revenue:						
Succeeding year property tax	\$ 165,000	0	27,841	192,841	48,008	240,849
TOTAL LIABILITIES	165,000	0	27,841	192,841	48,008	240,849
Fund balances:						
Reserved for debt service	0	0	0	0	15,037	15,037
Unreserved fund balances	7,930	40,486	42,003	90,419	0	90,419
Total fund balances	7,930	40,486	42,003	90,419	15,037	105,456
TOTAL LIABILITIES AND FUND EQUITY	\$ 172,930	40,486	69,844	283,260	63,045	346,305

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



MADRID COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	Special Revenue Funds					Total
	Manage-	Physical	Total			Other
	ment	Plant and	Special	Debt		Nonmajor
	Levy	Student Activity	Equipment Levy	Revenue Funds	Service	Governmental Funds
REVENUES:						
Local sources:						
Local tax	\$ 60,322	0	24,255	84,577	52,112	136,689
Other	15,471	129,078	109	144,658	37	144,695
State sources	75	0	30	105	65	170
Federal sources	0	0	1,095	1,095	0	1,095
TOTAL REVENUES	75,868	129,078	25,489	230,435	52,214	282,649
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	55,578	0	0	55,578	0	55,578
Other instruction	0	136,963	0	136,963	0	136,963
Support services:						
Operation and maintenance of plant services	44,997	0	0	44,997	0	44,997
Student transportation	6,602	0	53,245	59,847	0	59,847
Non-instructional programs:						
Food service operations	4,177	0	0	4,177	0	4,177
Other expenditures:						
Long-term debt:						
Principal	0	0	0	0	85,000	85,000
Interest and fiscal charges	0	0	0	0	76,233	76,233
TOTAL EXPENDITURES	111,354	136,963	53,245	301,562	161,233	462,795
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	(35,486)	(7,885)	(27,756)	(71,127)	(109,019)	(180,146)
OTHER FINANCING SOURCES:						
Operating transfers in	0	0	0	0	110,000	110,000
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES	(35,486)	(7,885)	(27,756)	(71,127)	981	(70,146)
FUND BALANCE BEGINNING OF YEAR	43,416	48,371	69,759	161,546	14,056	175,602
FUND BALANCE END OF YEAR	\$ 7,930	40,486	42,003	90,419	15,037	105,456

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MADRID COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 465	1,824	700	1,589
7-12 Vocal Music	125	0	14	111
7-12 Music Trip	8,356	7,001	7,761	7,596
Elementary Music	1,675	533	84	2,124
7-12 Activities	2,712	15,750	16,494	1,968
Yearbook	0	2,629	2,629	0
HS Student Council	5,772	4,657	8,242	2,187
JH Student Council	228	0	46	182
K-6 Student Council	1,777	0	0	1,777
K-6 Building	1,611	3,978	4,201	1,388
Boys Basketball	1,618	7,659	8,934	343
Football	3,421	28,149	29,278	2,292
Baseball	0	6,091	5,462	629
Boys Track	0	2,247	2,247	0
Golf	0	1,774	1,774	0
Football Camp	379	3,736	4,006	109
Girls Basketball	1,951	4,809	6,452	308
Volleyball	1,257	5,399	5,918	738
Softball	0	7,763	7,763	0
Girls Track	0	3,393	3,393	0
District FCCLA	0	1,065	197	868
FCCLA	89	2,622	2,344	367
Spanish Club	1,380	35	406	1,009
HS Cheerleaders	4,398	11,031	12,106	3,323
JH Cheerleaders	0	15	15	0
7-12 Activity Awards	0	855	855	0
6th Grade Activities	4	0	0	4
Class of 2006	2,245	0	523	1,722
Class of 2007	4,079	3,141	4,918	2,302
Class of 2008	2,555	445	0	3,000
Class of 2009	1,219	250	0	1,469
Class of 2010	1,055	816	201	1,670
Class of 2011	0	1,411	0	1,411
Total	\$ 48,371	129,078	136,963	40,486

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MADRID COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2006	2005	2004	2003
Revenues:					
Local sources:					
Local tax	\$	1,698,266	1,688,295	1,551,156	1,412,004
Tuition		177,624	155,947	111,578	85,566
Other		231,728	226,984	185,179	244,071
State sources		2,700,463	2,523,577	2,346,334	2,430,802
Federal sources		182,767	179,664	183,383	109,430
Total		\$ 4,990,848	4,774,467	4,377,630	4,281,873
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	2,044,434	1,914,044	1,812,725	1,693,854
Special instruction		506,964	587,167	559,072	538,235
Other instruction		527,272	498,422	466,306	469,235
Support services:					
Student services		117,223	109,305	107,408	105,299
Instructional staff services		202,236	194,616	196,845	132,072
Administration services		494,642	459,971	440,807	430,228
Operation and maintenance of plant services		440,722	396,592	387,372	403,939
Transportation services		176,373	125,109	113,078	129,108
Non-instructional programs		4,177	68,190	62,506	60,872
Other expenditures:					
Facilities acquisitions		182,030	50,376	121,788	7,991
Long-term debt:					
Principal		85,000	80,000	80,989	75,987
Interest		76,233	79,833	83,108	86,258
AEA flow-through		163,191	154,800	155,671	167,750
Total		\$ 5,020,497	4,718,425	4,587,675	4,300,828

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

### Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

### Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the  
Madrid Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Madrid Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 7, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Madrid Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

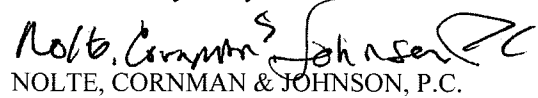
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Madrid Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Madrid Community School District and other parties to whom Madrid Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Madrid Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

August 7, 2006

MADRID COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

- II-B-06 Detail on Deposit Slips - We noted in the Nutrition Fund that when deposit slips were made out for deposits at the bank the slips did not contain detail of where the money came from.

Recommendation - When filling out deposit slips it is good practice to list individual checks from persons that make payments to the school. This practice makes it easier to show if individuals paid for services in the event a problem arises. This practice is also necessary to be able to better trace the flow of money through the receipting process to better guarantee the completeness of deposits.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

MADRID COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District disbursements for the year ended June 30, 2006, did not exceed the amount budgeted.
- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-06 Business Transactions - No business transactions between the District and District officials or employees were noted.
- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-06 Certified Enrollment - We noted no variance in the basic enrollment data certified to the Department of Education.
- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.